

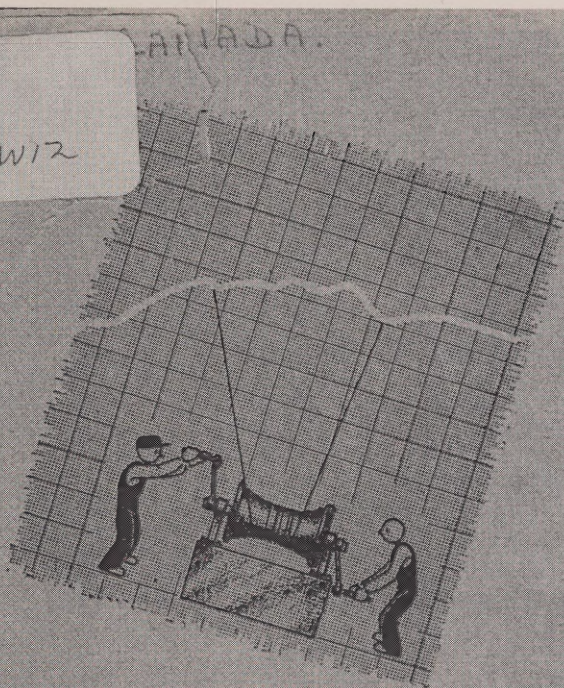


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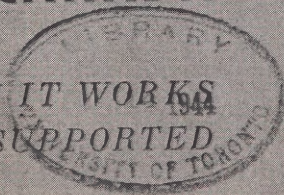
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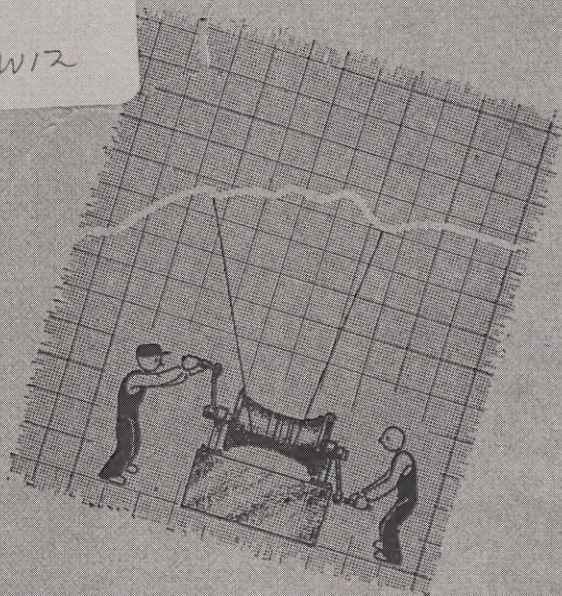


WARTIME ECONOMIC STABILIZATION TO KEEP DOWN THE COST OF LIVING IN CANADA

WHAT IT IS - HOW IT WORKS
WHY IT MUST BE SUPPORTED

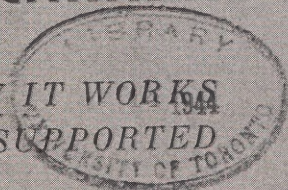


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WARTIME ECONOMIC STABILIZATION TO KEEP DOWN THE COST OF LIVING IN CANADA

WHAT IT IS - HOW IT WORKS
WHY IT MUST BE SUPPORTED



Pressures tending to force up the cost of living continue to threaten the soundness of Canada's wartime economy. Canadians have recognized the need for keeping the economy on an even keel in order to maintain our war effort and to prepare for the post-war period. It is perhaps not unnatural, however, in the sixth year of war, that a sense of the individual responsibility for maintaining a stable economy should need re-stressing. It is for that reason that this booklet has been issued.

WE

MUST HOLD THE LINE!



On the home front the battle against inflation is now the most critical of all.

The winning of this battle will contribute much to winning the war.

It will contribute more than all else towards the solution of post-war problems.

The purpose of Price Control is to prevent inflation. Its purpose is to *protect* and *maintain* a basic standard of living.

A higher money income will not be of any advantage if, because prices are going up, our money buys less and less.

To win the battle against unemployment in the post-war period, we must first of all win the battle against inflation.

Salaries and wages are a large element, often the largest element, in the cost of everything we buy.

If the Price Ceiling breaks down, in the long run all stand to lose.

We *must* hold the line against inflation to assure victory in war.

We *must* hold the line to provide a solid foundation on which, after the war, to build a greater and a better Canada.

OTTAWA.
Dec. 13,
1943

W. L. Mackenzie King.

PRIME MINISTER OF CANADA

Most Canadians today realize in a general way the necessity of a stabilization programme. Many of them, however, lack specific knowledge of the issues involved. Why was stabilization forced upon us? Was there an alternative? What is the thing and how does it work? Is it worth the irritations, inconveniences, interference, shortages and "red tape" which necessarily accompany it? Above all, do we *still* need it? This booklet endeavours to answer these questions in language that is familiar to the average Canadian. Canada is a democracy. It is therefore of vital importance that her citizens understand the problems facing them today. Only then can they intelligently instruct their government on the issues involved.

BASIC REASON

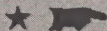
The basic reason for adopting a stabilization programme is that we are in a fight to the finish with what is probably the most highly organized, militaristic and thoroughly disciplined nation in history—the German people. Germany entered the war as fully mobilized as most of the United Nations are today after several years of unprecedented effort. That advanced state of military and economic preparation enabled her to conquer most of continental Europe within nine months of the outbreak of war. The choice then facing us was a simple one: either to accept the German conquest as an accomplished fact and await the possible extinction of democracy in the rest of the world or, to mobilize Canada's economic and military resources to the degree necessary and fight on to ultimate victory, regardless of the cost. We chose the latter. To obtain some idea as to how much we have accomplished, it is necessary to contrast our economic mobilization in the two world wars. From 1914 to 1918 Canada mobilized about 10 per cent of her economic resources for war. Today, approximately 50% of our total productive

capacity is used for war. That is an amazing record for a democracy which is removed some 3,000 miles from the scene of actual, large-scale combat. Naturally enough, we have paid a price for that degree of mobilization. As high as that price may seem, it is low compared to that of the only alternative left.

For the first two years of this war, little government interference in the economy was needed because our economy was working only part time. Economic expansion, far from presenting any problem, benefitted all concerned. While price increases were carefully watched and some control over them exercised, they were not at first considered dangerous and they inspired the necessary increased production.

CRISIS

By the latter part of 1941, however, our economy had taken up its slack and was approaching the danger point. This was evident when investigation showed that during the last six months before wage control and the price ceiling were introduced, prices were increasing *three times as fast as in the earlier part of the war!* We applied the brakes fully, just in time. Our days of economic grace were over and we were face to face with the menacing problem of inflation (the economic term for a continuous, rapid and *cumulative* increase in prices). We could have stopped at that point in our development, of course, and so avoided all the headaches that followed. But our national conscience would have fared badly when we contrasted our comfort and prosperity with the blood, sweat and tears of others in the common battle for freedom. And so we drove ahead.



CAUSES OF INFLATION

1. THERE ARE two basic causes of wartime inflation. The first is greatly increased spending by both the government and the general public; the second is increased costs of production. In pre-war days, our Dominion budget balanced at roughly 500 million dollars per year. During the last fiscal year, the national government spent approximately five and a half *billions*—an increase of eleven fold. Similarly, as a result of our greatly increased production, the amount of money at the command of the public has increased rapidly and steadily since the outbreak of war. It is estimated that the total of all individual income in Canada—even after allowing for the increase in income taxes—has risen from 4.2 billions in 1939 to about 7 billions in 1943. That sum is far in excess of the amount necessary to purchase available consumers' goods, and therefore much of it represents a direct inflationary threat. *Too much money for too few goods spells inflation.*

2. THE SECOND force working to raise prices is the continuous pressure of *higher costs of production*. If production costs continue to increase, the producer or manufacturer must ultimately be able to sell at a higher price, or lose money and eventually go out of business. This would reduce the supply of consumers' goods thus worsening the situation. The only solution to this problem is *to keep costs down* wherever possible. Unfortunately, there are some costs over which we have little or no control. These are the costs of imports, shipping charges and the costs of expensive substitutes for the materials that Canada used to import from areas now under enemy control.

On the other hand, there are certain increases in costs and prices which can be avoided. Higher markups or higher profit margins taken by business are important examples

of this kind. To prevent inflation, control of profits and markups is necessary.

Next, there is the all important question of labour costs. Higher labour costs could come about in a variety of ways, some of them unavoidable and some not. The use of inexperienced labour, absenteeism and a high labour turnover all add to production costs. The wartime tendency for labour to be "upgraded" or the payment of high overtime rates also raises wage costs.

Finally, any increase in wage rates which is not accompanied by an increase in labour efficiency will raise the cost of production.

Similarly, the payment of substantially higher prices for food, however necessary this may have been in the past, would raise the cost of living and stimulate a further demand for higher wages.

To achieve stable conditions, every type of cost or price that can be controlled *must* be kept under control.

That brings us to the question: why *must* inflation be prevented? There are several reasons why inflation must be prevented if it is at all possible to do so. An outline of them follows.

WHY INFLATION MUST BE PREVENTED

1. IN THE first place, economic stabilization is necessary for an efficient and maximum *war effort*. Such a war effort demands the planning and reorganization of Canada's economic resources, and it is impossible to do either unless there is economic stability on the home front. In many cases production has had to be diverted from normal channels to the production of war materials. In other cases, new plants and equipment have had to be built to make munitions of war. It has been necessary to withdraw men from the farm, to curtail the production of farm machinery and, at the same

time, to increase the output of agricultural products. Canadian agriculture, in spite of the shortages of both labour and machinery, has increased its production of food between 40 and 50 per cent over that of pre-war days. It has also been necessary to add more than 1,000,000 persons to our labour forces. This vast job could never have been accomplished without plans and controls. Neither could it have been done under the conditions produced by inflation. A long-sustained, efficient and maximum war effort *demands* economic stabilization.

2. ~~IN~~ THE second place, uncontrolled inflation is a severe and *unfair form of taxation*. Under conditions of inflation some salaries and wages may keep pace with increases in prices, but wages and salaries generally can never keep abreast of increases in the cost of living. For that section of our population living on pensions, annuities and other forms of small savings bringing in a fixed income, inflation spells poverty and hardship. These people, along with their dependents, comprise a substantial number of our fellow Canadians.

3. THIRDLY, stabilization is necessary to prevent *post-war dislocation*. If prices get out of control in wartime, that inflationary trend would most certainly continue into the post-war period. That is the verdict of history. Even in Canada, the cost of living in *dollars* went up in the two years 1919 and 1920 as much as it had in the four years from 1914 to 1918. That situation would be had enough in itself, but DEFLATION—that is a *sharp drop in prices*—invariably follows inflation. The dislocation that inevitably follows severely wrenches the entire economic system. Manufacturers and distributors are caught flat-footed with merchandise worth much less than it cost them. Their frantic efforts to unload glut the market and further depresses prices. The farmer is caught in an even worse situation. From 1920 to 1923, farm prices dropped 50 per cent. Since

farm costs and the prices of the things the farmer buys did not fall proportionately, agriculture was plunged into depression and thousands of farmers were ruined. The drastic curtailment of both industry and agriculture occasioned by deflation results in wholesale unemployment and the destitution and suffering of large numbers of workers and their dependents. For this reason alone, if for no other, inflation **MUST** be prevented.

4. **FINALLY**, economic stabilization *protects the savings* of the Canadian people. Most Canadians have always saved something for protection against the proverbial rainy day. They have put money into savings accounts, purchased insurance policies, annuities and other types of fixed dollar investments (those which bring in the same number of dollars regardless of what they will buy). Since the war began, Canadians have bought and held more than \$3,250,000,000 of War and Victory bonds and War Savings Certificates. These savings and investments have helped relieve the scarcity of goods and hence relieved the pressure on the price ceiling. After the war, the spending of some of these wartime savings will help to lessen dislocation and to maintain employment. The Canadian government must, if it is at all possible, return to its citizens dollars *equal in purchasing power* to those they are now saving or investing. This can be the case only if inflation is kept under control.

So much for the main reasons why we must prevent inflation. Next, let us equally briefly consider the basic points in Canada's stabilization programme.



13 BASIC POINTS IN OUR STABILIZATION PROGRAMME

1. THE FIRST and most obvious point is *Price Control*. On the prices front the government has long since placed a ceiling over the prices of virtually all goods and services. There have been some permitted price increases in special cases where the price "freeze" created hardship or injustice, or where supply was seriously threatened as a consequence. But, in one way or another, the principle that *today's prices must not exceed those prevailing in October, 1941*, is rigorously enforced.

2. THE SECOND point is *controlling Wages and Salaries*. Wages and salaries are important costs of production. To allow them any considerable leeway would obviously wreck our stabilization programme. At the same time, wages have not been arbitrarily frozen at unfair levels. Present regulations allow adjustments in certain circumstances but, by and large, wages are controlled in the name of stabilization. Salaries are even more strictly controlled for they are frozen at the rates in effect in November, 1941, and may be increased only with specific authority in each individual case justified by promotions involving added responsibilities and increased duties, or, in a restricted class of cases, by the adjustment of a salary which had been established at a probationary rate, or by other special circumstances set forth in the Salaries Order.

3. *Wartime Taxation* is the third point in our programme. Taxes provide the government with the money necessary to pay the costs of war as well as those of ordinary services. In addition, however, the payment of taxes reduces excess purchasing power and thus curbs a force tending to push prices upward. Government revenue from taxation has in-

creased five-fold since the outbreak of war. Even so, this pays for only about one-half of the unprecedented expenditures attributable to the war. These taxes have fallen heavily upon the incomes of both corporations and individuals. All profits of every corporation are first subject to an income tax of 18%; then to an additional flat rate profit tax of 12%; and finally to a rate of 100% on profits in excess of pre-war "standard" profits. Where the 100% rate applies, the corporation is entitled to a post-war refund of 20%. There is also a proviso that the minimum tax must be at least 40% of total profits. The result of these taxes is that if a corporation is able to make profits in excess of its pre-war "standard" profits, it is allowed to retain at most only an amount equal to 70% of that "standard". In addition, profits reaching the shareholder in the form of dividends are subject to the personal income tax of the recipient. Lastly, it must be remembered that, at a time when costs are increasing all along the line, price control itself sets a limit on profits. In the case of the personal income tax, the level of tax exemption has been so reduced that the number of Canadians paying income tax has been increased to nearly 2,000,000. In addition, the rates have been drastically increased. The most important requirement of taxes is that they should be fair. That principle is embodied in the formula: "equality of sacrifice on the basis of ability to pay". Accordingly, the net result of wartime taxation has been a decided lessening in the extremes of income received by the various groups in Canadian society. This is in keeping with the democratic purpose behind the war itself.

4. Government Borrowing and the encouragement of *Personal Savings* is the fourth point in our stabilization programme. As in the case of taxation, just described above, this part of the programme serves a twofold purpose. It helps pay for the war and, in addition, it relieves the pressure on the price ceiling. For these reasons it is easily seen why government

borrowing and personal savings are so important in Canada's stabilization programme.

5. THE FIFTH and last weapon in our battle against inflation is the *planning of production and distribution for the consumer*. Price control could never work if goods were so desperately scarce or so badly distributed that consumers were driven to offer high prices in order to get what they needed. This danger is avoided by a system of production and distribution controls operated by the Wartime Prices and Trade Board, the Departments of Agriculture and Fisheries, the Wartime Industries Control Board and other government agencies. Proof of success in this particular field is seen in the fact that although Canada is now in the sixth year of the war, most of the goods necessary to the maintenance of a relatively high standard of living are still available in the retail stores. This situation is not the result of sheer good luck by any means. It represents a vast amount of planning and direction by the agencies of government responsible for civilian supplies, in cooperation with Canadian manufacturers, wholesalers and retailers.

*P*RESSURES ON THE PRICE CEILING

The question now arises — if we have accomplished so much, why are we worrying about our immediate future? The answer is a simple one. In the sixth year of the war there still are *pressures* on our price ceiling, which, unless they are checked, will puncture that ceiling. If a break occurs anywhere along the line, it will in all likelihood wreck our entire programme. Let us briefly examine some of the more important of these pressures.

1. *Manufacturers and Distributors*

In the first place, while price ceiling regulations are generally accepted by those firms and individuals affected thereby, there have been many requests for individual concessions. If these were granted, it would ultimately mean the end of the price ceiling. For example, a manufacturer may argue that since his costs of production have gone up and since the price of his product is fixed, he ought to be allowed to charge a higher price. He will argue that the increase desired is but a small one, that there is not a widespread demand for his product. Why, he wants to know, can't the Wartime Prices and Trade Board give in just this once? He does not see that if the Board granted his request it would be morally bound to grant relief in *hundreds* of similar cases. The inevitable result would be the ultimate destruction of the price ceiling. Thus the Board is compelled to refuse the request and, in so doing, is sometimes labelled as unsympathetic if not autocratic. But—no alternative is possible.

2. *Farmers*

Similarly if certain producers of food were to obtain concessions it might well wreck Canada's stabilization programme. Such farmers would be overlooking the fact that they themselves have a vital interest in making our programme succeed. That programme prevents increases in their own costs of living and production; it ensures them enough equipment and supplies to keep on producing; it enables them both to plan and to expand their output with the assurance of a reasonable profit; above all, that programme will help prevent that deflationary dislocation that has always followed a serious measure of inflation. The net result of deflation has always been a lowering of the standard of living and of the general welfare of those associated with agriculture. If Canada can prevent such a development in this war, it will be possible to reduce the severity of post-war

maladjustments and thereby strengthen the long-run position of agriculture.

Furthermore, like the rest of us, Canadian farmers feel a responsibility for the common good of the Canadian people as a whole. Now that a reasonably satisfactory level of prices for farm commodities has been attained, most Canadian farmers recognize the necessity of supporting a general programme of price stabilization. The purchase of food represents about one-third of the consumer's total expenditure, and the increase that has already occurred in the prices of farm products has had an appreciable effect on the cost of living. Any further increase will certainly make it extremely difficult to keep the cost of living under control; it might very well fatally weaken the whole stabilization programme.

3. *Wage Earners and Salaried People*

As in the case of certain manufacturers and farmers, some labour groups have made demands for wage and salary increases which, if they become widespread, would endanger the whole stabilization policy. Holding wages down to the level of 1941 was bound to create some cases of inequity which needed to be remedied. Consequently, the War Labour Boards on which labour is represented have the power to rectify cases of hardship or injustice, or to permit upward adjustment in other special cases. But apart from situations of this kind, wage control *must* work if Canada is to avoid inflation—and inflation spells the doom of economic stabilization. Salary control was dealt with in an earlier section of this booklet, and it must be remembered that salary control applies to business executives as well as to supervisory workers of all types.



CONCLUSION

In conclusion, it must never be forgotten that these controls interlock in such a manner that a defect in the working of any one of them directly weakens the system of controls as a whole. In similar fashion, the economic interests of the various groups making up our population are inseparably intertwined. Just as members of any one group appreciate the necessity of ceilings being placed on the products of all other groups, so they in their turn must accept controls on their products for the common good. Victory on the military and home fronts demands joint effort and joint responsibility in the common cause. Selfishness on the part of any single group will jeopardize not only the welfare of the Canadian community as a whole, but, in the long run, will invariably react against the interests of the group responsible.

Our record speaks for itself—the cost of living in Canada has shown one of the smallest increases of all the important countries making up the United Nations. But we must never forget that our record is the result of unceasing vigilance, unrelenting effort and joint responsibility in a common cause. To slip up now, to relax—even momentarily—will not only mar that record—it will *weaken our war effort at a moment of crisis in the battle for democracy as well as accentuate post-war dislocation*. For these reasons, we must shoulder our burden and fight on until complete victory is safely within our grasp.



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